

29 MAR 1968

MEMORANDUM FOR: Deputy Director for Support

SUBJECT : Paid Active Reserve Program Proposal and Its
Relationship to CIA Retirement Problems

1. The Agency has the need to make voluntary or involuntary retirement under the CIA Retirement System less financially hazardous or punitive. It is also highly desirable to minimize the resentment of individuals who may be involuntarily retired and to deter them from taking adverse action in self-vindication or retaliation. These objectives would be attained in part if the individual were to receive supplementary compensation from CIA in addition to his annuity for a period of several years. In the first year it is desirable to assure no diminution in the employee's net expendable income. Since there will be no retirement deductions after retirement and since the annuity received will be non-taxable for a period of 24-36 months and since most early retirees will enter other employment before a year has passed, a sum considerably less than the difference between the annuity and former gross salary would be adequate.

2. The Agency recognizes that its age 60 retirement policy for employees under Civil Service Retirement, although necessary in the Agency's best interests, is prejudicial to those of the individual. Not only is the individual deprived of salary, but his annuity is 2% x high five less by each year of service he might otherwise have served. Since the average Civil Service retiree does so between his 65th and 66th year of age, it is a fair assumption that the average person's annuity will be at least 10% less than it otherwise would have been. (NOTE: 10% ignores the probable increase in high five that would occur during the period of additional employment.)

3. CIA has a need to maintain a reserve corps of personnel, trained and experienced in Agency methodology, who would be available for immediate duty in the event of a national emergency or if there were an abrupt increase in the need for skills in any particular field of work. Prompt availability would require continuance of medical and security clearance and willingness to be recalled either as an employee or in contract status. The problem is to provide an incentive system that would ensure a viable reserve corps.

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4. It is believed that the incentive/compensatory needs in problems 1 and 2 above can be reasonably satisfied at the same time that a compensation program is devised for the CIA Reserve Corps.

Proposal and Related Principles

1. That employees who retire with an immediate annuity for reasons other than cause and disability be eligible to join the CIA Active Reserve. To qualify for reserve compensation they must obligate themselves to return to duty if asked to do so. If recalled the reservist would receive the then equivalent of his terminal salary. Additionally and alternatively, the reservist would be obligated to perform appropriate small tasks and services without further compensation if not requiring more than 20 hours per month and in the absence of very special circumstances warranting additional compensation.

2. The maximum period of active reserve status with compensation shall be three years.

3. The maximum age for participation in the paid active reserve shall be:

a. Age 60 for retirees in the CIA Retirement System.

b. Age 63 for retirees in the Civil Service Retirement System.

The lower age limit for those in the CIA Retirement System is consistent with the argumentation presented by CIA to Congress justifying retirement as early as age 50 and the granting of a more favorable annuity formula, i.e., CIA's inability to use effectively after age 50 the services of all employees whose careers have been oriented toward the conduct and support of intelligence activities abroad. To qualify for the full three year active reserve term, the employee would have to retire before attaining age 57. Thus, this age 60 maximum age will consistently foster early retirement.

4. For every month an individual in the CIA Retirement System remains in service after attaining age 57, an equivalent reduction will be made in his total period of eligibility to participate in the paid Active Reserve. In determining reserve compensation, such reductions shall first be applied to the compensation scale for the first 12 months of active reserve status.

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5. For every month an employee in the Civil Service Retirement System remains in service in excess of three months, an equivalent reduction will be made in his total period of eligibility for paid active reserve status. The three month leeway is to give the Agency some latitude in setting the retirement date which by law it does not have with respect to the CIA Retirement System.

6. Reserve compensation shall be suspended during periods of recall to duty, but the permissible period of paid active reserve status shall not be extended by reason of recall.

Compensation Formulae Considerations

Problem 1, the encouragement of early retirement, seems to call for full preservation of the individual's expendable income during the first year of retirement. The individual should be financially unimpaired in preparing himself for and in locating other employment. Making allowances for the termination of retirement deductions and a greatly reduced income tax base, I believe reserve compensation at approximately 80% of the difference between the former salary and the annuity will leave the individual's expendable income unimpaired.

To a no less important degree, unimpaired expendable income is equally vital to the age 60 Civil Service retiree who may also need to locate supplementary employment or who is in the process of adjusting to a lower standard of living.

In each of the following two years it is logical that there be downward progression in reserve compensation. The value of a former employee's services decreases with the individual's loss of current knowledge about Agency activities, the likelihood that the Agency will need his services diminishes, and the reservist's willingness to fulfill his obligation will lessen as he establishes himself in a new vocational field or settles into full retirement.

The scale of compensation to be paid must meet numerous tests. It must first of all be reasonable and defensible in terms of the Active Reserve program. It should, however, logically be influenced by the need of the Agency to make our early retirement policies effective and equitable.

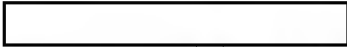
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It is suggested that sample computations at several grade levels, including Agency average grade, be made. I suggest the following formulae be used in the initial testing:

<u>1st year</u>	<u>2nd year</u>	<u>3rd year</u>
80%	40%	20%
80%	60%	40%

It is then suggested that the examples, using estimated Federal and State tax rates and retirement deductions, demonstrate unimpaired expendable income in the first year of paid reserve status. To the extent there is impairment in the 2nd and 3rd years, it can easily be seen how much the individual will have to reduce his standard of living or earn supplemental funds.

It is also suggested that the annual cost of the reserve program be projected for a span of years ahead to establish the rough budgetary implications of the program.


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